

The President's Daily Brief

2 July 1971

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FOR THE PRESIDENT ONLY

THE PRESIDENT'S DAILY BRIEF

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PRINCIPAL DEVELOPMENTS

On *Page 1* we comment on the Viet Cong's latest proposal in Paris.

Inflation has sharply accelerated in Phnom Penh in the past week, with prices of some key items doubling. (*Page 3*)

Eight new heroin refineries have gone into production in the Thailand-Burma-Laos border region since the beginning of the year. (*Page 4*)

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On *Page 7* we discuss Peking's commentary on the Chinese Communist Party's 50th anniversary yesterday.

MIG-19s are accumulating at China's Shen-yang plant. (*Page 8*)

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VIETNAM

The Viet Cong's new seven-point proposal softens the Communist position on POW release but retains and amplifies a very tough line on US disengagement from the war. In addition, it repackages Hanoi's demands for a political settlement in South Vietnam in a superficially more attractive form.

Madame Binh stated in Paris yesterday that if the US sets "a terminal date for the withdrawal from South Vietnam in 1971 of the totality of US forces" and those of its allies, the Communists and the allies will immediately work out arrangements to ensure the safety of the withdrawing troops and to release the soldiers and civilians "of all parties" who are held as prisoners. Prisoner release, the statement added, will be timed to end when withdrawals are completed.

The formulation on the prisoner-release question is new; up to now the Communists have said only that the POW issue would be "discussed" when the US set a withdrawal date. The deadline for withdrawal is even shorter this time than it was in the Viet Cong's eight points last September, however. More important, the demand that the military disengagement be total, including noncombatants, equipment, and bases, is as adamant as ever. The inclusion of civilian as well as military prisoners in the release also opens up a thorny problem of the Communist cadre held by Saigon.

There are two eye-catching changes in the new Communist position on a political settlement in South Vietnam. Last September's proposal contained an elaborate scenario involving the formation of a new non-Communist "administration" in Saigon excluding President Thieu, Vice-President Ky, and Prime Minister Khiem, and the establishment of a temporary coalition government on the basis of negotiations between this "administration" and the Communists. The new statement retains the same scenario, but Ky's and Khiem's names are not mentioned, and Hanoi demands only that Thieu and unnamed men in his "bellicose group" must go.

Second, the Communists have replaced their insistence on a coalition government with something less precise. They now say only that a broad "government of national concord" will be the outcome of the talks between the post-Thieu "administration" and the Communists. By implication the Communists are leaving the specific form of this government open to negotiation. Moreover, the language of this section--and indeed much of the statement--is cast to convey an image of conciliation and reasonableness, without committing Hanoi to anything specific.

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The Communists doubtless hope that their initiative on the prisoners--coupled as it is with a restatement of their basic position on US withdrawals--will make things awkward for the US Government both at home and overseas. They may believe that their political proposals will appeal to many in the US who are looking for a face-saving way out of the war. They probably also hope to fuel worries in Saigon about Washington's longer-term support. The new formula for a political settlement in South Vietnam, by its fuzziness and air of reasonableness, is designed both to encourage individuals in South Vietnam whose support of the war is wavering and to give some ammunition to those--possibly even including Ky--who are already working to build an anti-Thieu, antiwar constituency.

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CAMBODIA

Inflation has sharply accelerated in Phnom Penh during the past week. Prices of beef and pork, as well as of rice on the open market, have doubled. In addition, the black market value of the Cambodian riel depreciated drastically in the past few days.

The skyrocketing prices result from increased military spending, depleted stocks of important items, reduced food shipments into the capital, and early indications of a poor rice crop next season. The accompanying loss of confidence in the currency has led the Chinese community to send more capital abroad.

Only last week, Cambodia's leadership agreed in principle to all of the fairly sweeping fiscal and monetary reforms recommended last March by the International Monetary Fund. Reforms, if carried through, could eventually help in restoring public confidence.

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SOUTHEAST ASIA

Eight new refineries exclusively producing pure white heroin have gone into operation in the Thailand-Burma-Laos border region since the beginning of this year, [redacted] Their production had reached at least 7.5 metric tons by the end of May. This does not include production from the several refineries that were operating prior to 1971.

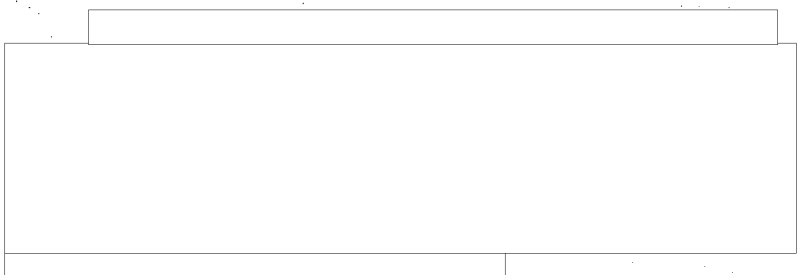
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The flurry of refinery construction apparently reflects the increased demand generated by US servicemen in South Vietnam. Accelerated shipments of raw opium out of northeast Burma into the triborder refining area also reflect the responsiveness of local narcotics traffickers to the increasing demand for heroin. The shipments are partly an effort, too, to build up stocks in anticipation of US pressure to suppress the trade. By the end of June, about 300 tons of opium had been delivered to the triborder area this year compared with a known total of 123 tons for all of 1970.

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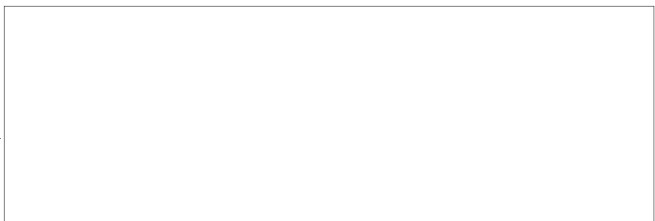
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COMMUNIST CHINA

The authoritative editorial commemorating the Chinese Communist Party's 50th anniversary yesterday was largely a panegyric to the correctness of Mao Tse-tung's "line," together with a recounting of the political sins of many of his earlier party opponents. The article was remarkable for its cursory treatment of the achievements of the Cultural Revolution, which brought the most momentous purge in the history of the Chinese party. Although it did severely castigate deposed state chairman Liu Shao-chi, the editorial pointedly ignored numerous other opponents uncovered by Mao and his radical lieutenants during the 1966-1968 period, declaring flatly that "we will not go into detail about this revolution."

This gingerly approach reflects the intensity of the factional and personal conflicts within China's ruling politburo. Mounting political pressure over the past year on the politburo's radical ideologues has cast considerable doubt on the ultimate outcome of the Cultural Revolution, and much of its history may even be in the process of being rewritten. The editorial's condemnation of counterrevolutionaries who created chaos and sought personal power in the "revolution," its call for exposing conspirators and renegades still in the party, its praise for the army's role in restoring order, and its emphasis on inner party struggle are all apparently allusions to a recent sharpening of battle lines in the politburo between the militants who were in Mao's inner circle and the less tightly knit proponents of relative moderation.

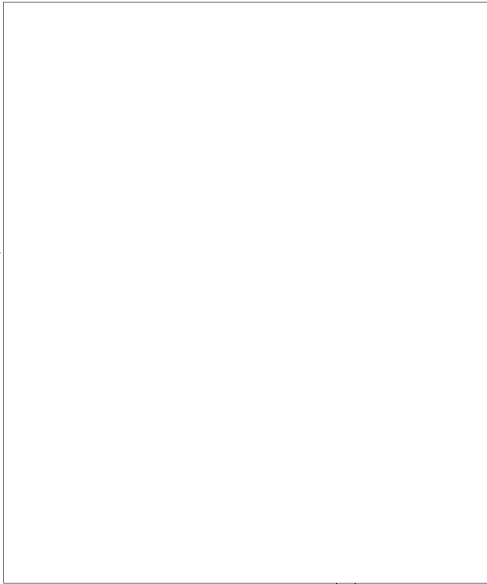
The editorial also failed to indulge in self-congratulation over the progress achieved since last year's anniversary in rebuilding the post-Cultural Revolution party apparatus. This reticence with regard to the regime's first order of domestic business is almost certainly because some key central departments such as the party secretariat have yet to be formally reconstituted, and because four provinces still lack party committees. Moreover, the mere establishment of leading party organs in most of China's 29 provinces and special municipalities has proved no panacea for overcoming the political divisions engendered among the local leadership by the Cultural Revolution.

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COMMUNIST CHINA

The latest satellite photography showed 423 MIG-19s at two airfields associated with the aircraft production facility at Shen-yang. This is the highest number yet observed in the Shen-yang area.

The accumulation of MIG-19s at Shen-yang has been evident for more than six months. The fact that so many have not yet been flown to Chinese Air Force units suggests that the air force simply cannot absorb the new aircraft at the current rate of production--as many as 50 a month. It may be, however, that the Shen-yang MIGs are yet to be equipped with some vital components. China has been producing MIG-19 aircraft since late 1964 or early 1965. At least 1,100 of the aircraft are already assigned to tactical units.



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USSR: The latest satellite photography shows five "Backfire" swing-wing bombers at the Ramenskoye test center near Moscow, the highest number observed to date. The new Soviet bomber--formerly designated KAZ-A--is now engaged in flight testing and aerial refueling trials. This Mach 2 aircraft probably will carry one air-to-surface missile. If the "Backfire" test program continues to run smoothly, we estimate that the aircraft could enter production this year and operational service by late 1973.

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